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This is Hector Rail Group

Hector Rail Group is an independent line haul provider for the European Rail Transport Market, providing traction and related services across Scandinavia and Germany. We offer environmentally friendly transportation services of heavy industry products, raw materials and intermodal freight. The Group consists of Hector Rail AB, Sweden's largest private rail freight company operating across Scandinavia, and Hector Rail GmbH, a German operator servicing both international traffic to Scandinavia and the domestic German market.

Hector Rail's values are reflected in our four guiding principles:

- Safety
- Commitment
- Flexibility
- Efficiency

Sustainability is at the very foundation of those values. The services we offer give us the opportunity to make a difference – for the environment, our employees and ultimately - society.

Safety - the core tenet on which we base all our operations. Our dedicated safety functions continuously monitor the regulatory environment and the safety management system in each country, to ensure compliance of laws and regulations everywhere we operate. In order to improve traffic and employee safety, we audit our business and pursue risk mitigating activities beyond those required by current regulations.

Commitment – we prove our commitment through high quality delivery to our customers, where we contribute to strengthening the competitive advantage of rail services. When the railroad is used for goods that were previously transported by road, we contribute to a better environment, and help our customers meet their environmental responsibilities. In Scandinavia and Germany most of the rail network is electrified, enabling the use of electricity-powered locomotives, where the CO₂ emissions per tonne carried are significantly lower than for road transport of the same goods. Rail also has an advantageous performance in harmful emissions such as nitrous oxide. To contribute to the growth of the rail freight industry overall, is therefore to contribute to a more sustainable development.

Flexibility - allows us to do more. Even if rail transport is an environmentally friendly alternative to transportation by road or sea, there are opportunities for individual providers to further reduce their environmental impact. We achieve this by choosing environmentally friendly energy sources (CO₂e neutral electricity), and through the implementation of Eco driving, for more energy efficient operations.

Efficiency - Through a modernized fleet, better planning and by combining volumes we can also contribute to better capacity utilization, where fully loaded trains reduce the emissions per gross tonne kilometre.

Sustainable business practices are also emphasized by our owner, Ancala Partners¹.

As the shareholder of Hector Rail, Ancala fully supports Hector Rail's sustainability agenda. Ancala is a European infrastructure asset manager which views sustainability as a key priority for all its investments and is a signatory of the United Nations backed Principles for Responsible Investment

¹ (<https://www.ancala.com/>)



(PRI). Ancala drives continuous improvement across environmental, social and governance (ESG) practices in each portfolio company. Through board-level engagement and access to its ESG expertise, Ancala commits to helping Hector Rail to achieve our ESG targets including the development of sustainability focused value creation initiatives and the regular assessment of ESG related risks and opportunities to Hector Rail's own operations, as well as the potential impact to the wider stakeholder community.

2020 – conducting business when business is not as usual

2020 was an unusual year for Hector Rail, as well as for the world in general, as the Covid -19 virus spread throughout all the markets in which we operate. Hector Rail adapted quickly; through changes in safety routines for drivers and office personnel, through supplying additional safety equipment, and by setting up regular information meetings to share the latest developments to all personnel. At the time of writing, the pandemic is not yet over and our customers as well as our own personnel have grown accustomed to delivering products and services while simultaneously navigating constantly changing demands in a more volatile business environment than in previous years. At Hector Rail, we are proud of our delivery and how we managed to not lose sight of our overarching sustainability ambition - even during a global pandemic.



The Hector Rail Sustainability Ambition

Through their ESG focus and expertise, Ancala sets clear expectations that provide a solid foundation for sustainable business practices. In order to foster and inspire sustainable value creating behaviour, these requirements are joined with Hector Rail's own sustainability activities and KPIs, which are designed to capture and manage market and sector specific opportunities and risks.

The sector specific opportunities and risks are identified and reviewed in a materiality assessment, where environmental, social, governance, human rights, anti-corruption and other factors are evaluated, based on the assessed risk of our own operations, together with the potential impact to stakeholders in terms of the economy, environment and/or society.

The materiality assessment helps identify and prioritise our key risks and opportunities, where Hector Rail can make a meaningful and positive contribution to our stakeholders and society. These risks and opportunities are then used to articulate our sustainability ambition, which forms the basis for specific KPI targets and focus activities.

Key priorities that stand out in the materiality assessment for Hector Rail are safety and environmental issues, together with current regulatory and infrastructure limitations that hinder the growth of sustainable transport alternatives. We are also committed to promoting openness and involvement, through equal opportunities in the workplace and through the prevalence of sound business ethics in everything we do.

The Hector Rail sustainability ambition is summarized as:

- Safety First
- Green Value Creation
- Promoting Diversity & Inclusion
- Sound Business Ethics
- Promoting Rail Transportation



Each of these areas include a number of sustainability KPIs and focus areas for the two operating companies Hector Rail AB (covering the Scandinavian operations) and Hector Rail GmbH (operating in Germany). Reporting of performance is in place to keep the Board of directors informed of progress against set targets.

KPIs and focus areas are also broken down into relevant targets on every level of the organization. Performance is tracked on all management levels, and progress and potential improvement activities are discussed. The sustainability activities and targets are revised annually by Hector Rail management and Board of directors, to ensure they remain relevant over time.

The assessed impact in the materiality assessment, key risk factors, relevant policies and chosen KPIs are summarized in the matrix below.



Table 1: Summary of Hektor Rail sustainability assessment and ambition

	HEALTH AND SAFETY	ENVIRONMENT	EMPLOYEES & SOCIAL RESPONSIBILITY	ANTI-CORRUPTION & HUMAN RIGHTS	REGULATORY & INFRASTRUCTURE
IMPACT ACCORDING TO MATERIALITY ASSESSMENT	High 	High 	Medium 	Medium 	High
KEY RISK FACTORS	<ul style="list-style-type: none"> Traffic and worker safety, through: <ul style="list-style-type: none"> Incident & accident reporting Safety compliance Trespassing & suicides 	<ul style="list-style-type: none"> Energy efficiency GHG emissions Road and Sea vs Rail Fleet age Green value proposition 	<ul style="list-style-type: none"> Employee satisfaction & retention Diversity Drivers' working environment Worker health 	<ul style="list-style-type: none"> Ethics & Anti-corruption Legal compliance 	<ul style="list-style-type: none"> Rail infrastructure maintenance & management Unfair competition Noise Road and Sea vs Rail
HECTOR RAIL SUSTAINABILITY AMBITION	Safety First	Green Value Creation	Promoting Diversity & Inclusion	Sound Business Ethics	Promoting Rail Transportation
POLICIES AND GUIDELINES (SELECTION)²	<ul style="list-style-type: none"> Safety policy Safety manuals 	<ul style="list-style-type: none"> Quality & Environmental policy 	<ul style="list-style-type: none"> Employee policy Code of Conduct 	<ul style="list-style-type: none"> Code of Conduct 	<ul style="list-style-type: none"> Code of Conduct
RELEVANT KPIS (GROUP)	<ul style="list-style-type: none"> High risk safety events RIDDOR³ reported injuries 	<ul style="list-style-type: none"> GHG emissions Energy usage 	<ul style="list-style-type: none"> Gender diversity Employee satisfaction 	<ul style="list-style-type: none"> Ethics and anti-corruption training 	<ul style="list-style-type: none"> Infrastructure waiting time Reduced infrastructure costs
FOCUS AREAS	<ul style="list-style-type: none"> Maintaining a culture where safety comes first Continuous improvements, based on detailed safety targets in each company Safety process and management system improvements 	<ul style="list-style-type: none"> Continue to develop and implement eco driving Strengthening rail competitiveness through longer and heavier trains Modernizing fleet 	<ul style="list-style-type: none"> Ensuring worker health in the pandemic Promote increased diversification in the recruitment process Updated Code of Conduct 	<ul style="list-style-type: none"> Zero tolerance for bribery and corruption on all levels of the organization Updated Code of Conduct 	<ul style="list-style-type: none"> Promote rail freight under fair market conditions towards decision makers Work with infrastructure owners on better utilization of the infrastructure

² (Policy exists for Hektor Rail AB (HRAB) and Hektor Rail GmbH (HRGmbH), unless otherwise stated)

³ (RIDDOR stands for the *Reporting of Injuries, Diseases and Dangerous Occurrences Regulation*. For more information: <http://www.hse.gov.uk/riddor/>)



Safety first

Safety comes first in Hector Rail, as reflected through our guiding principles, our sustainability goals as well as in our day to day operations. Our dedicated safety functions continuously monitor the regulatory environment and the safety management system in each country, to ensure compliance with laws and regulations everywhere we operate. Processes, management controls and KPIs are aimed at achieving continuous improvement of traffic and worker safety. The KPIs for safety performance are closely monitored, and incidents that occur are followed by detailed root-cause analysis and action plans. Audits are carried out regularly.

We believe that an accident-free working environment is both desirable and possible. On Group level, the ambition of an accident-free working environment has been divided into the areas of Traffic safety and Worker safety.

KPI Target

Traffic safety: No serious accidents

Worker safety: No RIDDOR reported injuries

For serious accidents, the Swedish definition “allvarlig olycka” is used, including collision between train and railway vehicle, train collision with obstacles, train derailment, breakage of wheels and/or axles on rolling stock.

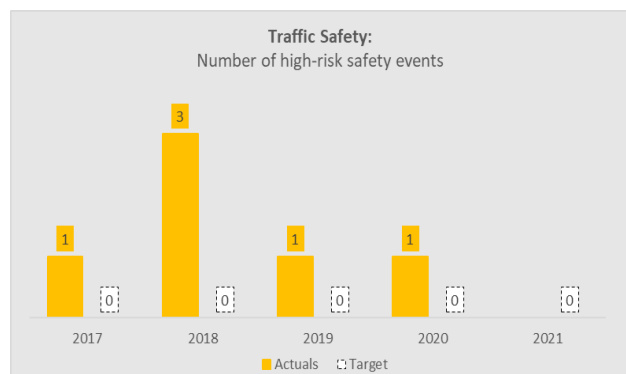
The worker safety target is defined as zero work-related injuries reportable according to RIDDOR, the UK standard for work-related injuries. Going forward this measurement will be phased out and replaced with a Lost Time Injury (LTI) frequency measurement instead, as LTI better reflects how well we manage to avoid injuries that causes time off work.

The KPIs and definitions were reviewed in 2017, with the aim to implement common KPI definitions on Group level. Since the definitions changed from previous reporting periods, 2017 is used as a base year.

Result in 2020

Zero high-risk safety events occurred in Hector Rail GmbH (HRGmbH) in 2020.

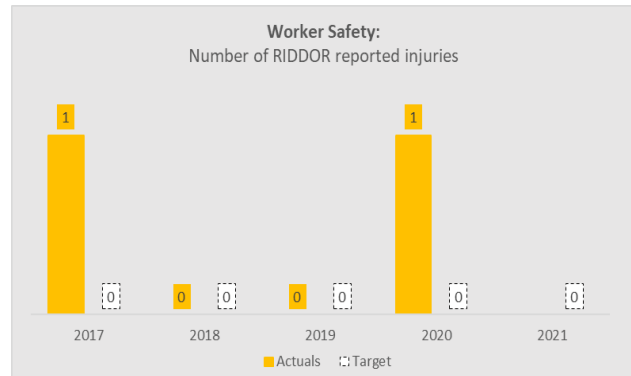
Hector Rail AB (HRAB) had one high risk safety event in 2020, where a locomotive was derailed because of faults in the underlying infrastructure (the tracks). It resulted in significant property damage, but no persons were injured. Hector Rail has an ongoing dialogue with infrastructure owners regarding the track maintenance, in order to reduce the risk of infrastructure-related safety events.



In 2020, Hector Rail therefore did not reach the target of zero high-risk safety events.



No RIDDOR reportable injury occurred in 2020 in HRGmbH while HRAB had one occurrence where a driver fell off a locomotive and fractured their hand. The target of zero was thereby not reached during 2020. Work is ongoing in improving our drivers work environment through for example fitting locomotives with additional handrails or steps where deemed appropriate.



Key safety-related activities performed in 2020 include:

- Continuous improvement based on annual safety targets and action plans set in each company. In HRAB this plan is called “Safety at all levels”, and aims to ensure compliance with applicable authority requirements and to improve our health and safety performance
- Further improvement of a document management system in HRAB that was implemented during 2019 with accompanying guidelines and instructions
- Company wide information security training rolled out to all employees in HRAB during 2020
- Health, safety & quality management reporting system Synergi (from supplier DNV) was implemented in HRAB in the second half of 2020.
- Development of a near-miss-management system in HRGmbH started in 2019, and continued in 2020 with the introduction of a rewards system and quarterly near-miss follow up meetings
- To prove adherence to their quality and security management system and risk-based approach, HRGmbH became ISO 9001 certified in Q3 2020.

Activities in focus 2021

- Maintaining and enhancing a culture where safety comes first on all levels of the organization. The work to embed a safety culture is constantly ongoing
- Continuous improvements based on annual safety targets, KPIs and action plans made in each company. The safety targets and action plans are rigorous, and the active work with these are key to continue to improve our health and safety performance
- Work ongoing in HRAB to become ISO 9001, 14001 and 27001 certified. In HRAB, most of the work was conducted in 2020, with a target date for certification in 2021.



Green Value Creation

Rail transport is an environmentally friendly alternative to transportation by road or sea, but Hektor Rail aims to reduce the environmental impact of our operations even further. In order to achieve this, we focus on reducing the overall energy usage as well as reducing emissions using sustainable energy sources.

We set targets both for energy usage, which measures the total consumption, and for Green House Gas (GHG) emissions, where CO₂e neutral emissions are excluded.

KPI Target

GHG emissions (CO₂e/gross ton- km): Decrease by 2% per annum

Energy usage (Wh/gross ton- km): Decrease by 2% per annum

Emissions can be divided into scope 1-3. Scope 1 is defined as direct emissions through burning of fuels of the emitter, whereas scope 2 and 3 are indirect emissions generated by purchased electricity for own use and production of purchased services and materials, respectively. The measurement of GHG in Hektor Rail is based on total CO₂e emissions in metric tons and includes scope 1 and 2 emissions for HRAB and HRGmbH, defined as diesel and electricity for train operations. Scope 2 emissions from offices are excluded as deemed to be a negligible part of the total. Scope 3 emissions are excluded. Calculated emissions have not been verified by a third party.

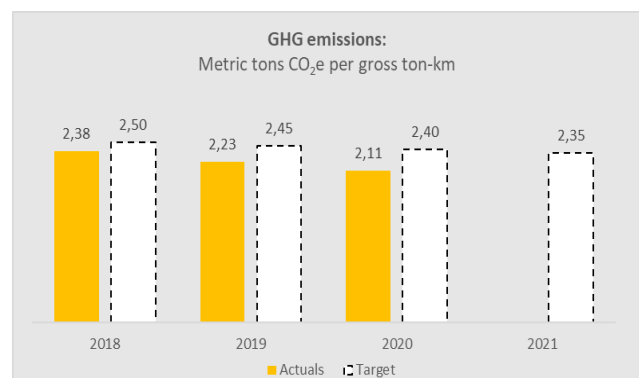
Energy usage is defined as kWh, based on electricity and diesel for train operations. Diesel consumption is converted to kWh using the SCB conversion rate (1 litre diesel = 9,9633 kWh)⁴

From 2020 we will be using gross ton-km as a denominator to measure both KPIs instead of the previous train kilometres. We have therefore recalculated previous year's results to be able to compare the development over time and to capture improvements made from running longer and heavier trains, which was not possible when using the old method of calculation.

In Sweden, Norway and Denmark - and from 2021 – Germany, 100% of Hektor Rail's electricity in train operations come from sustainable CO₂e neutral energy sources (wind and hydro power). In the years to come GHG emissions in our markets will therefore be fully limited to the operation of diesel locos in areas without electrified tracks.

Result in 2020

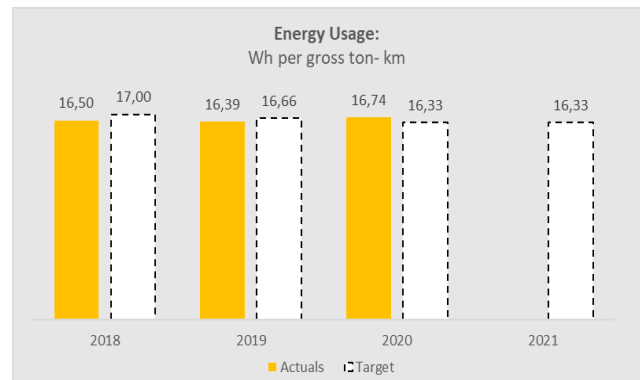
GHG emissions were 2,11 metric tons CO₂e per gross ton-km in 2020, with reductions realised in line with target. Implemented improvement activities include running longer and heavier trains, and ensuring we maximise the use of electrified tracks and not using diesel under thread. Going forward we will see a significant decline in emissions and thus an improvement of the GHG emissions KPI as our electricity now comes for sustainable sources. The target for 2021 is expected to be reached.



⁴ (Rate utilised in several SCB publications. For instance: http://www.scb.se/Statistik/TK/_dokument/Anv%C3%A4ndarhandledning2010.pdf)



Energy usage in 2020 was 16,74 Wh per gross ton-km, an **increase** of 2,1% compared to 2019, but mostly from sustainable CO₂e neutral energy sources. A reason for the increase is improvements to the way HRAB measure energy usage in our more widely used Vectron locomotives as we installed more fine-tuned meters in the locos during 2020.



With the ongoing modernization of the fleet, a 2% reduction of energy per annum is still deemed achievable. A conservative estimate is that a 20% improvement in energy usage can be achieved by replacing old locomotives with more fuel-efficient modern locomotives.

Activities in focus 2021

- Continue to modernize the diesel fleet and aim for high utilization of modern electrical fleet in HRAB, which will enable more energy efficient operations
- Continued application of Eco driving across all our operations. This is spearheaded through simulator training and through cross-functional teams where energy consumption and potential improvements are discussed
- Extend the analysis of energy consumption to find stretches where savings in energy consumption can be realized from reduced speed, without negative business impact
- 100% of Hector Rail's electricity in train operations in HRAB and HRGmbH will come from sustainable CO₂e neutral energy sources.
- Invest in 5 new G6 shunting locomotives for a more energy efficient production and to give our drivers a better working environment in HRAB



Promoting Diversity and inclusiveness

Our ambition is to be an attractive employer and recruit talented and ambitious employees for all positions. To be attractive, Hector Rail focuses on openness, involvement and personal development for all our employees.

We are committed to the involvement of employees in the continuous, joint development of our business, and the coaching of employees to meet personal and corporate development objectives.

In Hector Rail we believe that a diversified workforce and inclusive practices increases job satisfaction and quality of life for our employees, and that it has a positive effect on the quality of services delivered to our customers. Hector Rail therefore strives to achieve diversity with regards to gender, age, ethnicity and nationality, as well as in other respects that contribute to a stimulating equal opportunities workplace, and for our steering documents, such as our Code of Conduct, to reflect the inclusion we are striving to promote.

We work proactively to achieve greater gender equality in the male dominated rail transport market where we operate. When looking at the industry average in Sweden, 83% of loco drivers are male, and 85% of ground staff⁵, and a similar pattern exists in all markets where Hector Rail operates. Our goal is to be more diverse than the industry average, by encouraging female applicants as well as fostering a culture of equal opportunities, where discrimination in employment and occupation does not occur.

KPI Target - Promoting diversity

Women (%) in Management positions: Target for 2020 is 30%. Long-term target: 40%

Women (%) in Hector Rail Group: Target for 2020 is 23%. Long-term target: 25%

Employee satisfaction: 75%

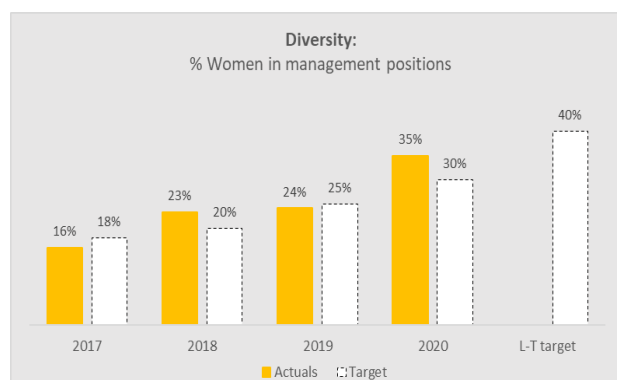
The gender diversity KPIs are measured as number of female employees divided by total number of employees. Management is defined as directors and management staff reporting directly to a director.

The employee satisfaction is measured as a weighted index based on an employee engagement survey.

Result in 2020

The diversity KPIs are long-term targets for Hector Rail, as they are partly dependent on attracting more women to the industry, and partly on the existence of vacancies to be filled.

In management positions, the % of women increased to 35%, from 24% in 2019. This was above the targeted development for the year.



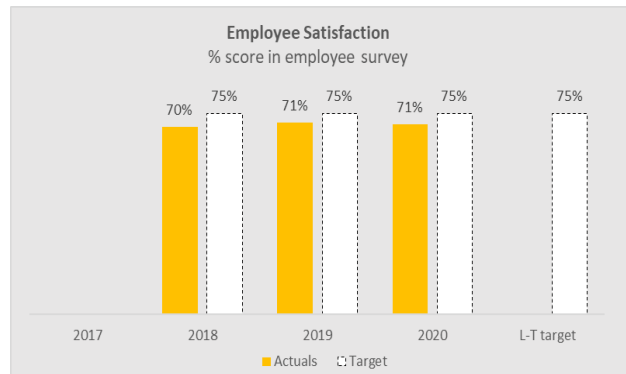
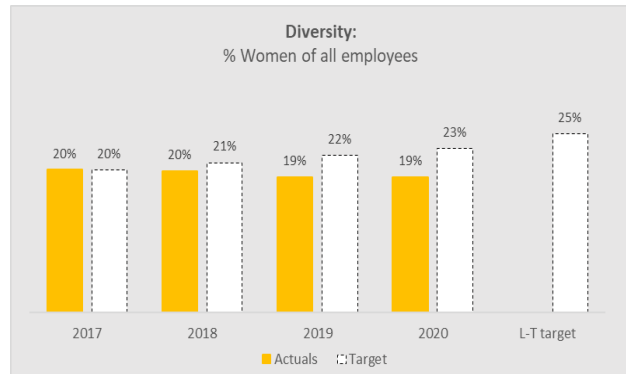
⁵ (SCB, Yrkesregistret med yrkesstatistik, 2018
https://www.scb.se/contentassets/b49d7efc2653457f8179f18461d2bf38/am0208_2018a01_sm_am33sm2001.pdf)



When looking at all employees, the number was 19 %, which is the same as in 2019. This is below target but above the industry average described above. Activities are ongoing to attract a diversified workforce.

The latest staff survey was conducted in HRAB in 2019⁶, resulting in an overall Hector Rail employee satisfaction index of 71%. No survey was conducted in HRGmbH in 2019 or 2020, so the 2018 value remains in 2020. The total employee satisfaction results are thus the same as in 2019 and the aim is to show an improvement when conducting a new survey in 2020.

In 2021 HRAB will continue to improve internal communications, as top down and bottom up communication is fundamental to the success of the business. HRAB will also further strengthen the focus on developing leaders internally.



Activities in focus 2021

- Perform employee satisfaction surveys in HRAB and HRGmbH
- Continued focus on promoting job opportunities for those new to rail by engaging and advertising with local universities
- Promote gender diversity in the recruitment process
- Continue to improve internal communication, so that all employees are consistently kept up to date with and can actively communicate and contribute to company developments

⁶ (Employee survey conducted every second year in HRAB. This result stands from the report of 2019)



Sound Business Ethics

New ownership in 2020 has seen us review stakeholder demands together with Ancala.

Overall, the risk of corruption and violation of human rights is assessed to be limited. Hector Rail operates exclusively on regulated markets in Germany and Scandinavia and predominantly uses large, well established and well-known European suppliers with their own sourcing strategies in place. Hector Rail has no suppliers from any of the identified high-risk countries on the Financial Action Task Force list, The European Union restrictive measures (sanctions) in force⁷, and the United Nations Security Council Sanctions.

Nevertheless, questions of equality, moral judgement and integrity of decision making are relevant in all workplaces, and the prevalence of sound business ethics and equal human rights is important to Hector Rail. To facilitate discussions and ensure awareness on all relevant levels, the expectations on managers, employees and suppliers are detailed in the Hector Rail Code of Conduct. The document contains essentials regarding improper payments, supplier relations, anti-money laundering and competition law as well as information security and environmental goals.

KPI Target – Sound Business Ethics

Ethics and anti-corruption training: All employees to know the Code of Conduct.

The current code of Conduct “Staying on Track” was approved on Group level in 2017. The target was to have completed training on management level in 2017, and of all employees during 2018.

The training on employee level was to be performed by a train-the-trainer approach, where management introduces and discusses the Staying on Track document in their respective functions.

Result in 2020

The current Code of Conduct was fully rolled out in HRGmbH in 2020. A decision was also made to revise and update the Code of Conduct during 2021. HRAB had fully rolled out Staying on Track in 2019.

In 2020, the HRAB Code of Conduct has been updated and translated into Swedish. It is to be approved by the leadership team and Board in early 2021. The updated Code of Conduct will be rolled out in HRAB and will also be included in the onboarding program for new employees.



To ensure ability for all employees to raise concerns, Hector Rail Group also has an externally managed whistle blowing service. This service allows any person to remain completely anonymous, and concerns raised through this channel will automatically reach the highest level of management and the board of Hector Rail Group. The service can be found at:

<https://report.whistleb.com/en/hectorrail>

Activities in focus 2021

- The updated Code of Conduct to be rolled out to all employees in HRAB during 2021
- Code of Conduct to be revised and updated in GMBH and rolled out to all employees

⁷ (USA is excluded even though some EU sanctions are in place)



Promoting Rail Transportation

With the Hector Rail sustainability ambition “Green Value Creation”, we focus on what Hector Rail can do within rail transportation, in order to reduce the environmental impact of our operations even further.

In order to achieve a sufficient shift to reach the global climate and emissions targets, however, it is also necessary to promote rail versus road for both freight and passenger services. The rail sector globally carries 8% of all passengers and 7% of total freight volume but represent only 2% of total transport energy demand. Promoting a shift from road to rail therefore has potential to drastically reduce emissions⁸.

The Swedish climate target is to reduce emissions of greenhouse gas by 70% between 2010 to 2030, with a mere 20% achieved by 2020. The transport sector is important, as emissions from transports constitute one third of the total Swedish emissions of greenhouse gas⁹. While there is increasing political focus on promoting rail transportation, there are a number of key challenges to create a sustainable and level playing field on the market.

Infrastructure charges have increased significantly over time, to cover the cost for rail infrastructure maintenance, while road transport modes do not carry the corresponding cost for maintenance of the road network. As the end customers evaluate transport modes based on cost, this relative cost increase for rail transport reduces competitiveness, and therefore comes at a cost also for the environment.

It is critical to use the infrastructure in an efficient way and that freight transportation is treated fairly. Due to the generally lower speed of freight trains, they are often pushed aside to prioritize the passenger side. This infrastructure waiting time (“skogstid”, or forest time) is typically 15 % of the total transportation time for freight trains. This results in higher production cost and delayed customer services. In addition, there is an environmental impact, as braking leads to energy losses.

The Scandinavian rail transport market has limited competition. State owned incumbents have profitability issues, partly due to the structural issues described above. When targeted support to state-owned companies is used as a solution to the problem, it risks pushing out the private alternatives. This is not a level playing field and comes at a cost for the end customer with fewer options. As the largest private rail freight transport alternative on the Scandinavian market, Hector Rail therefore works through industry organisations and in the public debate, in order to achieve support mechanisms that promote competition and create a level playing field.

KPI Target – Regulatory & infrastructure

Infrastructure waiting time: Decrease by 10% per annum

Infrastructure fees: Stable or reduced from 2020 level

Targets to be measured from 2021 and onwards.

⁸ (IEA (2019), *The Future of Rail*, IEA, Paris <https://www.iea.org/reports/the-future-of-rail>)

⁹ (<https://www.naturvardsverket.se/Sa-mar-miljon/Statistik-A-O/Vaxthusgaser-utslapp-fran-inrikes-transporter/>)



Result in 2020

This is a new focus area in the Sustainability Report, but activities have been ongoing to influence key decisions affecting the rail freight market and the Hector Rail position for some time. Contacts with key decision makers have been established, in particular within the Swedish government, the Traffic Committee of the Parliament and Trafikverket (The Swedish Transport Administration).

The MD of Hector Rail is also part of the Board of Tågföretagen (ASTOC), a trade organization for the Swedish train operators.

Activities in focus 2021

- Continue to promote the railway as the solution for freight transportation and fair market conditions. Possibly expand the work outside Sweden, i.e. to Norway, Denmark and the EU.
- Argue for reduced infrastructure fees together with Tågföretagen to make rail freight more competitive versus road transportation.
- Work with Trafikverket for better utilization of the infrastructure in general and assure that the application for Hector Rail T22 (timetable for 2022 traffic) has as little waiting time as possible.